

## RESEARCH HIGHLIGHTS

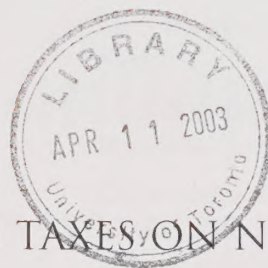
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## LEVIES, FEES, CHARGES AND TAXES ON NEW HOUSING (2002)

**Introduction**

Government-imposed costs on new housing can be substantial. They have a direct effect on the total cost of housing—and, therefore, on housing affordability.

This research examined the levies, fees, charges and taxes on the development and construction of common types of new housing in 30 municipalities. In addition to the single-detached and row housing covered in similar estimates prepared for 26 municipalities in 1996, the research includes condominium and rental apartments. Property taxes on the new dwellings are also included in the research.

Estimates of the levies, fees, charges and taxes on a typical modest new single-detached house in each of the municipalities included in this analysis are presented in Exhibit I. The estimates cover all three levels of government—municipal, provincial and federal. It should be noted that, unlike (provincial and federal) taxes, in most cases, the municipal levies, fees and charges relate to specific direct services.

**Municipal Levies, Fees and Charges**

Municipal governments have a number of levies, fees and charges which apply to new housing. These include:

- **Infrastructure charges** – these are mainly development (cost) charges (also called lot levies, development levies, off-site services fees, etc.); however, they also include smaller fees and charges such as water and sewer connection fees, and engineering fees for municipal approval and/or supervision of infrastructure work.

- **Land dedications** – the value of land required to be provided to municipalities for parkland.
- **Development application and processing fees** – subdivision application fees, development approvals fees, site plan approval fees, etc.
- **Building permit fees** – while most of the fees in this category are actually called “building permit fees,” many municipalities also levy special fees for plumbing, electrical and mechanical work.

In municipalities with specific charges for installation of infrastructure external to the subdivision (such as, development (cost) charges, etc.) these are by far the largest of the municipal levies, fees and charges on new housing—in some cases, they exceed \$20,000. Many municipalities do not have infrastructure charges; however, in these municipalities, developers are required to cover the cost of connecting to trunk services—which, in other jurisdictions, may be covered (in whole or in part) by the municipal infrastructure charges. This difference in approach creates difficulties in making comparisons among municipalities.

In most municipalities, developers are required to cover the cost of installing internal subdivision services. Among the municipalities included in this analysis, only Montréal and Laval install internal infrastructure services. While Montréal and Laval levy infrastructure charges to cover the cost of installation of internal subdivision services, for consistency, these charges are not included in the analysis (or in Exhibit I).



# Exhibit I: Levies, Fees, Charges and Taxes / Single-Detached Houses, 2002

Municipality	Municipal Levies, Fees and Charges						Other Charges and Taxes					
	Price	Infrastructure Charges*	Land Dedications	Dev.Appl. Proc. Fees	Building Permit Fees	Total Municipal Charges	New Home Warranty Fees**	Registry Fees/Land Transfer Tax	Provincial Sales Tax	GST	TOTAL	Percent of Price
St. John's	130,000	-	1,900	100	725	2,725	295	635	10,400	5,824	19,879	15.3%
Charlottetown	125,000	-	400	7	372	779	295	594	5,404	5,600	12,672	10.1%
Halifax	140,000	5,300	1,720	41	579	7,640	295	2,170	11,200	6,272	27,577	19.7%
Moncton	120,000	100	290	25	767	1,182	295	355	9,600	5,376	16,808	14.0%
Montréal	145,000	-	1,388	-	810	2,198	790	1,320	7,272	6,496	18,076	12.5%
Laval	155,000	-	1,160	53	384	1,597	790	1,420	7,773	6,944	18,524	12.0%
Longueuil	140,000	-	1,890	50	264	2,204	790	1,270	7,021	6,272	17,557	12.5%
Gatineau	135,000	-	1,350	50	314	1,714	790	1,220	6,770	6,048	16,542	12.3%
Québec City	110,000	-	750	11	264	1,025	790	970	5,517	4,928	13,230	12.0%
Toronto	285,000	5,543	4,363	274	2,458	12,638	540	2,820	5,867	12,768	34,633	12.2%
Mississauga	260,000	18,650	3,880	136	1,639	24,305	540	2,445	5,256	11,648	44,194	17.0%
Vaughan	275,000	21,657	3,555	301	1,766	27,279	540	2,670	5,519	12,320	48,327	17.6%
London	160,000	9,067	747	84	850	10,748	432	1,395	4,454	7,168	24,197	15.1%
Ottawa	230,000	19,473	1,476	230	1,281	22,460	486	2,095	5,565	10,304	40,910	17.8%
Sudbury	150,000	2,893	855	219	1,014	4,981	432	1,295	4,234	6,720	17,661	11.8%
Windsor	150,000	3,700	1,015	110	2,066	6,891	432	1,295	4,117	6,720	19,455	13.0%
Winnipeg	145,000	2,961	883	302	728	4,874	225	910	4,251	6,496	16,756	11.6%
Regina	135,000	6,601	1,090	164	500	8,355	318	171	2,922	6,048	17,813	13.2%
Saskatoon	145,000	7,923	1,220	56	573	9,772	327	171	2,965	6,496	19,731	13.6%
Calgary	175,000	3,959	2,964	413	1,021	8,356	235	72	-	7,840	16,503	9.4%
Edmonton	165,000	5,987	2,121	548	1,250	9,907	220	69	-	7,392	17,588	10.7%
Grande Prairie	130,000	2,560	2,044	253	939	5,795	190	62	-	5,824	11,871	9.1%
Burnaby	395,000	3,439	6,521	39	1,750	11,749	525	5,955	5,425	22,175	45,829	11.6%
Surrey	315,000	19,820	3,609	101	1,738	25,268	525	4,355	5,930	14,112	50,190	15.9%
Kelowna	210,000	8,863	2,290	131	1,041	12,326	525	2,255	4,452	9,408	28,966	13.8%
Prince George	160,000	3,412	1,067	184	686	5,349	625	1,655	4,072	7,168	18,869	11.8%
Saanich	255,000	10,014	3,762	110	1,593	15,479	525	3,155	4,827	11,424	35,409	13.9%
Whitehorse	150,000	2,500	-	25	613	3,138	-	155	-	6,720	10,013	6.7%
Yellowknife	165,000	170	-	9	926	1,105	-	165	-	7,392	8,662	5.2%
Weighted Average	197,060	8,435	2,527	266	1,211	12,439	392	1,344	3,696	8,856	26,727	13.6%

\* Infrastructure charge policies vary among the municipalities (see text for details); this creates difficulties in comparing the effects of these charges on total development costs.

\*\* New home warranty coverage is mandatory only in Quebec, Ontario and BC. Warranty fees for the other provinces are provided for illustrative purposes only.



Installing the infrastructure necessary for residential development is extremely expensive. Provincial legislation allows municipalities to recoup the costs they incur for the installation of infrastructure. The infrastructure charges generally reflect (all or some) of the estimated costs actually incurred by the municipalities—under provincial legislation, they cannot be used as revenue-generating tools. While the development industry may question whether some of the costs are justified, the charges are typically based on estimates of the expenditures deemed to be required as a result of new development—and must be used for that purpose.

The other municipal fees and charges on new housing (land dedications, development application and processing fees, and building permit fees) tend to be less than infrastructure charges.

In the municipalities covered in this analysis, total municipal levies, fees and charges for single-detached houses range from less than \$1,000 to over \$27,000—see Exhibit 1. The weighted average across all municipalities, is over \$12,400.

### Goods and Services Tax

Prior to 1991, the federal government levied a sales tax on manufactured goods—the federal Manufacturers Sales Tax. It was replaced by the GST in January 1991. The GST applies to all new dwellings, though those priced less than \$350,000 are eligible for a rebate of 36% of the GST paid—effectively a rebate equivalent to 2.52% of the price of the dwelling. With this rebate, the effective rate of GST on a new dwelling (priced less than \$350,000) is 4.48%.

For dwellings priced between \$350,000 and \$450,000, the amount of the rebate declines progressively, to nil for dwellings priced at \$450,000 or more.

For rental dwellings, prior to 2000, there was no rebate—new privately-owned rental housing was subject to the full 7% GST on the sales price (if sold to another owner), or the fair market value (defined to be at least the cost of construction plus land, etc.) if the building was retained for the developer's own portfolio. In the 2000 Federal Budget, the same rebate (36% of GST) as applies to ownership housing was extended to rental housing, so the effective rate of GST on rental housing is 4.48%.

### Provincial Taxes and Charges

There are several types of provincial taxes and charges which apply to new housing:

- Provincial retail sales taxes – except for PEI, in all provinces east of the Ottawa River, these taxes have been “harmonized” with the GST;
- Land transfer taxes – some provinces have land transfer taxes;
- Land registration fees – all provinces and territories have fees to register properties; and
- Other charges – some provinces mandate warranty coverage for new homes and some have other charges on new housing construction.

### Provincial Sales Taxes

New housing development generates sales tax revenues for most provincial governments. There is no PST in Alberta or in the territories.

Prior to the introduction of the GST, and the harmonization of the PST with the GST in some provinces, the PST in each province applied to the building materials used in the construction of the dwellings. Now, the PST treatment of new housing varies significantly across the country:

- Three of the four Atlantic provinces (Newfoundland, Nova Scotia and New Brunswick) have fully harmonized their sales taxes with the GST—the Harmonized Sales Tax (HST) rate is 15% (GST of 7% and PST of 8%). For most new housing in these provinces, there is no rebate of PST, so, effectively, the PST on new housing in these provinces is 8% of the value of the dwelling.
- Quebec has established a distinct sales tax system which involves a 7.5% Quebec Sales Tax (QST) on top of the 7% GST. For new housing, the QST applies to the value of the dwelling plus GST (less the GST rebate). There is a rebate of 36% of the QST for dwellings valued at up to \$200,000—effectively, the QST on new dwellings priced less than \$200,000 is roughly 5% of the price. The rebate is phased out for dwellings priced between \$200,000 and \$225,000.
- Five provinces (PEI, Ontario, Manitoba, Saskatchewan and B.C.) apply PST to the building materials used in construction. Though there are differences in the tax rates among these provinces (varying from a low of 6% in Saskatchewan to a high of 10% in PEI), the tax applies only to the building materials used in construction—with the exception of Manitoba, where the base for the PST has recently been extended to include the full value of the contract price of electrical, heating, ventilation and air conditioning, and plumbing contracts.



## Other Provincially Mandated Costs

Some form of land transfer tax applies in most jurisdictions. All provinces also have a registration fee when property is sold. While registration fees are relatively minor, land transfer taxes in some jurisdictions can be substantial: for example 1.5% of the price of a dwelling in Halifax, and 1% of the first \$200,000 and 2% of the remainder in B.C.

Three provinces (Quebec, Ontario and B.C.) require that new homes be covered by warranty. In other provinces, warranty coverage is optional.

In B.C., new home builders must be registered with the Homeowner Protection Office (a crown agency). There is a levy of \$750 per unit for new multi-unit buildings sold to owner-occupants in the coastal climate zone (consisting of the Lower Mainland and the bottom half of Vancouver Island).

## Levies, Fees, Charges and Taxes on Rental Housing

As with the analysis of single-detached houses, there are substantial levies, fees, charges and taxes on the development of new rental housing. A review of the breakdown of these charges for modest new rental housing in various municipalities is presented in Exhibit 2.

There is little doubt, as has been concluded in many analyses, that the cumulation of levies, fees, charges and taxes has a substantial impact on the economic viability of new rental development.

The same levies, fees, charges and taxes apply to the development of new rental housing as apply to ownership housing:

- Municipal levies, fees and charges do not differentiate between rental and ownership dwellings—for any particular development, almost exactly the same scale of charges would apply whether the development was rental or ownership. However, in many municipalities, condominium developments face modest additional charges for condominium registration.
- The PST treatment of rental housing is the same as for ownership housing: 8% of the total value in the harmonized Atlantic provinces, 7.5% of the value in Quebec (with the same rebate for rental housing as for ownership housing), and PST only on building materials (whether the project is rental or ownership) in the other provinces (except in Manitoba which applies PST to electrical and mechanical contracts as well).
- The GST is effectively 4.48% of the value of rental projects—just as it is for most ownership dwellings. As noted, this is a relatively recent change: prior to 2000, the GST rebate did not apply to new rental housing.

**Exhibit 2: Levies, Fees, Charges and Taxes. Modest Rental Apartments, 2002**

Municipality	Development Cost	Municipal Levies, Fees and Charges					Other Charges and Taxes		
		Infrastructure Charges*	Land Dedications	Dev. Appl. Proc. Fees	Building Permit Fees	Provincial Sales Tax	GST	TOTAL	Percent of cost
St. John's	71,000	-	800	13	607	5,680	3,181	10,280	14.5%
Charlottetown	52,000	-	400	-	180	2,260	2,330	5,170	9.9%
Halifax	66,000	1,500	650	-	311	5,280	2,957	10,697	16.2%
Moncton	54,000	3	700	1	420	4,320	2,419	7,863	14.6%
Montréal	84,000	-	850	-	579	4,213	3,763	9,405	11.2%
Laval	82,000	-	750	-	289	4,112	3,674	8,825	10.8%
Longueuil	75,000	-	650	-	219	3,761	3,360	7,990	10.7%
Gatineau	78,000	-	700	-	269	3,912	3,494	8,375	10.7%
Québec City	75,000	-	600	-	170	3,761	3,360	7,892	10.5%
Toronto	120,000	3,223	839	53	909	3,746	5,376	14,146	11.8%
Mississauga	105,000	9,781	3,700	57	708	3,331	4,704	22,280	21.2%
Vaughan	108,000	12,179	291	313	721	3,368	4,838	21,710	20.1%
London	92,500	4,933	453	33	299	2,934	4,144	12,796	13.8%
Ottawa	100,000	9,565	72	86	851	3,331	4,288	18,192	18.2%
Sudbury	97,000	1,823	309	30	887	3,343	4,346	10,737	11.1%
Windsor	94,500	2,000	425	25	961	3,138	4,234	10,783	11.4%
Winnipeg	83,500	428	366	-	629	2,805	3,580	7,808	9.4%
Regina	83,500	1,035	397	-	353	2,200	3,741	7,725	9.3%
Saskatoon	84,000	1,500	400	2	373	2,200	3,763	8,239	9.8%
Calgary	95,000	582	1,092	29	471	-	4,256	6,430	6.8%
Edmonton	90,000	1,407	759	79	599	-	4,032	6,875	7.6%
Vancouver	125,000	2,865	-	182	609	3,171	5,360	12,186	9.7%
Burnaby	120,000	1,912	2,870	225	749	3,171	5,145	14,074	11.7%
Surrey	100,000	8,194	-	98	707	2,814	4,480	16,292	16.3%
Saanich	98,500	4,333	508	12	888	2,942	4,413	13,096	13.3%
<b>Average</b>	<b>89,340</b>	<b>2,690</b>	<b>743</b>	<b>49</b>	<b>550</b>	<b>3,192</b>	<b>3,970</b>	<b>11,195</b>	<b>12.5%</b>

\* Infrastructure charge policies vary among the municipalities (see text for details); this creates difficulties in comparing the effects of these charges on total development costs.



## Property Taxes

Although this has not always been the case, in recent years, most Canadian jurisdictions have moved to a system of property taxation that is premised on market value assessment—for example, properties are generally assessed at some percentage of their estimated “market” value at some base period. Assessed values of properties are established by assessors who either are employees of the provincial government, or operate under guidelines established by provincial legislation.

For ownership dwellings (including condominium units), assessed values are generally based on the sale price of similar properties in the same general location. For rental properties, the assessment process is more complex—most jurisdictions utilize the “income approach”, sometimes in combination with estimated costs. The income approach values a building in much the same way as a lender determines the lending value—through the application of capitalization rates (or gross income multipliers) based on income.

Property tax rates typically vary for different types of properties. Residential (especially ownership residential) dwellings usually have preferential tax rates compared to non-residential properties.

In many provinces, the tax rates for ownership dwellings and rental (often called “multi-residential”) properties are the same. Exceptions are New Brunswick, Ontario and Saskatchewan. In these provinces, rental properties typically have much higher tax rates than ownership housing:

- In New Brunswick, the tax rate for rental housing is almost double the rate for ownership housing.
- In Toronto, property taxes on (existing) rental units are almost three times the property taxes for ownership units with the same assessed value. In order to encourage new rental production, the provincial government has allowed municipalities to establish a separate property tax class for new rental housing with a lower tax rate than for existing rental housing (for 35 years). Toronto has adopted the separate class—with the result that new rental buildings qualify for the (much lower) ownership rate.
- London, Ottawa, Sudbury and Windsor all tax rental properties significantly more than ownership properties with the same assessed value—from 75% more (Sudbury) to 119% more (Windsor). In Mississauga (51% more) and Vaughan (21% more), the differential is less. Of these municipalities, Ottawa and Vaughan have

adopted the separate class for new rental buildings and have applied the ownership tax rate to the class.

- Regina and Saskatoon – both municipalities apply significantly higher taxes to rental properties than ownership properties with the same assessed value—44% more in the case of Regina and 70% more in the case of Saskatoon.

In British Columbia and Manitoba, there are rebates of property taxes for owner-occupied dwellings—\$400 in Manitoba and \$470 in British Columbia. Therefore, in these provinces, while the advertised tax rates for ownership and rental housing are the same, the effective tax rate for rental housing is higher than for ownership housing because of the rebate.

The higher tax rates which apply to rental housing compared to ownership housing have been cited as a major factor behind the lack of new rental investment in many municipalities. The analysis here confirms that these differences are very significant in some cases.

## Overall Conclusions and Changes Since 1996

The overall burden of levies, fees, charges and taxes (from all levels of government) on new housing is significant. The weighted average levies, fees, charges and taxes on a modest new single-detached house total \$26,727—13.6% of the \$197,060 weighted average price.

The most significant change over the period since 1996, when a similar study was conducted, has been the harmonization of provincial sales taxes with the GST in Newfoundland, Nova Scotia and New Brunswick—this raised the PST on new housing in these provinces to 8% of the purchase price of a dwelling from less than half that amount in 1996.

There were also some changes in PST in other provinces. The rate of PST has increased in Quebec (from 6.5% to 7.5%) and British Columbia (from 7% to 7.5%). Manitoba recently extended the coverage of PST to include the total value of some sub-contracts (rather than just materials). Saskatchewan has reduced its overall rate of PST to 6% (from 9% in 1996).

Some municipalities (for example, Halifax and the Greater Vancouver Regional District) have introduced infrastructure charges since 1996. Most municipalities have raised their various levies, fees and charges to reflect inflation.



In British Columbia, the Homeowner Protection Office has been established and there are new levies for multiple unit projects.

In most municipalities, infrastructure charges and other fees and charges have increased—most infrastructure charges are indexed to some measure of the increase in the cost of installing infrastructure.

The taxes collected by the federal and provincial governments (GST, PST and land transfer taxes) all generate increased revenues as house prices rise with inflation.

Comparisons with the past are complicated by a variety of factors, including the fact that the characteristics and prices of typical new houses change over time. Nonetheless, comparing the results of this analysis with a similar one in 1996 (which covered 26 municipalities), it appears that levies, fees, charges and taxes are increasing as a share of housing prices.

### Exhibit 3: Levies, Fees, Charges and Taxes As Percent of House Price

		Weighted Average Price	Weighted Average Levies, Fees, Charges and Taxes	
			\$	% of Price
2002	All Municipalities	197,060	26,727	13.6%
2002	26 Municipalities	195,193	26,694	13.7%
1996	26 Municipalities	153,089	20,740	13.5%

In 1996, the weighted average levies, fees, charges and taxes on a new single-detached house in the 26 municipalities included in a 1996 analysis was 13.5% of the weighted average price (weightings based on 2002 starts). For the same 26 municipalities as were included in the 1996 analysis, the weighted average 2002 levies, fees, charges and taxes on a typical new house is estimated at 13.7% of the weighted average price. As illustrated in Exhibit 3, this is slightly different from the weighted average for 2002 presented in Exhibit 1 since fewer municipalities were covered in the 1996 analysis.

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**Research Consultant:** Greg Lampert, Economic Consultant

**Research Report:** Levies, Fees, Charges and Taxes on New Housing (2002)

This report is available through CMHC.

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